Economic Outlook

Irving Trust

Irving Trust Company
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Economic Research &
Planning Division

November 1986

Forecasting the economy is often a dicey exercise, but the year ahead has some unusual twists that make the process especially interesting. A shift toward fiscal restraint as well as certain aspects of tax reform next year will tend to suppress economic growth, while auto sales and housing starts already show signs of sputtering. These considerations would tend to put the economic expansion on a fragile footing next year. At the same time, exports are now responding favorably to the substantial decline in the dollar against major currencies since early 1985 and will likely continue to improve next year as well. Moreover, since inflationary pressures remain relatively subdued and since reductions in personal income tax rates due to tax reform will be phased in next year, real disposable personal income will continue to show moderate growth and provide support for consumer spending. The likely result will be a shift in the composition of economic growth. Some manufacturing industries that are now seeing a turnaround will continue to have rising sales and production, while domestic auto sales will likely weaken. Real GNP is expected to rise 3.5% from the fourth quarter of this year to the fourth quarter of next year, following an estimated 2.7% rise this year.

Industrial production has essentially moved sideways for slightly more than two years now. Conditions seemed to deteriorate earlier this year, with the sharpest month-to-month declines since the last recession recorded in February and March, but production has improved since then. As of September, the total index was 1.4% higher than the March level and 0.8% higher than a year ago. Production in several industries is still lower than a year ago, with the sharpest decline in oil and gas extraction by a wide margin. Other industries, however, have begun to emerge from the doldrums.

Paper production rose 9.6% from August 1985 to August 1986, compared to a decline of 0.6% in the prior 12-month period. Production in the textile industry this August was 8.9% higher than a year ago and 18.1% higher than the level at the end of 1984. The textile industry had in effect gone through another full recession in 1984, even as the overall economy continued to expand. The rebound in textile production is the result of the completion of the inventory correction in the retail apparel industry that began in 1984. It also shows the effects of quotas, though certainly not to the extent desired by the industry. The chemical, furniture, and appliance industries are also showing greater strength in production, while aircraft production has consistently been a strong performer. Nevertheless, conditions still remain soft for numerous other manufacturing industries. Even for these, however, September's substantial 3.4% rise in new orders, which are admittedly notoriously volatile, suggests that more industries will be experiencing a turnaround, to some extent because of the depreciation of the dollar.

In summary, the economy faces numerous obstacles next year, but some industries that had slowed down have now gotten a second wind. As it enters its fifth year, the current expansion is indeed at what would historically be considered an advanced age. In past expansions, however, inflation would be enough of a problem at this point so that monetary policy would be turning increasingly restrictive. Today, with the underlying rate of inflation still low and likely to remain relatively low, it is likely that the economy will continue to expand for several more years.

Bernard Schoenfeld

Irving Trust

Economic Forecast

Percent Changes at Annual Rates

	Actual			1986				1987	Actual	Forecast	
	I	II	III	IV	I	II	III	IV	1984-1985	1985-1986	1986-1987
Gross National Product	6.2	2.6	5.7	7.6	7.3	7.8	8.1	7.4	6.2	5.5	7.1
Real GNP	3.8	0.6	2.4	4.1	3.5	4.1	3.8	2.7	2.7	2.7	3.4
GNP Price Deflator	2.5	1.8	3.6	3.1	3.7	3.6	4.2	4.5	3.4	2.8	3.5

	Actual	Forecast	Actual	Forecast	
	1986:III	1986: IV	1984-1985	1985-1986	1986-1987
Consumer Spending	10.2%	3.3%	7.1%	6.2%	6.4%
Durable Goods	44.9	-11.7	8.5	7.3	4.3
Nondurable Goods	3.1	4.7	4.0	3.3	3.9
Services	6.8	6.9	8.9	7.9	7.4
Business Capital Spending	3.2	7.5	10.0	0.8	2.6
Structures	-5.3	1.7	11.1	-7.0	-1.9
Equipment	7.1	10.1	9.4	4.8	4.7
Residential Investment	11.2	10.9	5.7	13.2	8.5
			1985	1986	1987
Change in Invertories	$-7.5b.	$20.0b.	$11.1b.	$17.7b.	$32.3b.
Net Exports of Goods and Services	$-110.1b.	$-112.2b.	$-78.9b.	$-105.1b.	$-91.5b.
			1984-1985	1985-1986	1986-1987
Government Purchases	4.5%	7.5%	11.2%	5.9%	7.0%
Federal	-2.1	6.2	13.7	3.1	6.5
Defense	-2.0	6.2	10.4	6.3	6.5
Other	-1.8	5.5	24.3	-5.7	6.4
State & Local	9.6	8.4	9.3	8.0	7.5
Corporate Profits Before Tax	1.2*F	0.5*	-5.3	3.6	7.3
Corporate Profits After Tax @	-6.7*F	-10.0*	-6.3	-5.6	4.1
Plant and Equipment Expenditures	3.0F	6.0	9.2	-2.0	2.0
Real Final Sales#	4.6	2.0	4.2	2.5	3.2
Real Disposable Personal Income	-2.2	3.1	2.3	3.3	3.3

Economic Indicators	Recent Data			Actual	Forecast	
	July	Aug.	Sept.	1984-1985	1985-1986	1986-1987
Consumer Price Index**	0.0%	2.4%	3.6%	3.7%	2.1%	4.1%
Producer Price Index for Finished Goods**	-4.8	3.6	4.8	2.1	-2.4	3.7
Industrial Production	0.6	0.1	0.1	2.2	1.1	2.5
Retail Sales**	0.7	1.5	4.6	6.4	6.4	5.8
				1985	1986	1987
Auto Sales (millions of units, a.r.)	10.7	12.7	16.1	11.1	11.2	10.6
Housing Starts (millions of units, a.r.)	1.78	1.82	1.68	1.74	1.86	1.70
Unemployment Rate	6.9%	6.8%	7.0%	7.2%	7.0%	6.5%
Merchandise Trade Deficit (a.r.)	$216.4b.	$159.9b.	$150.7b.	$148.5b.	$170.0b.	$145.0b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.

November 7, 1986

#GNP less change in inventories, both in real terms.
**Monthly percent changes are not annualized.
*Year-over-year percent changes.
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$b. = billions a.r. = annual rate F = Forecast
@ Estimated to include loss of investment tax credit beginning in 1986.

Economic Outlook

Irving Trust

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Economic Research &
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December 1986

This is an economy of contradictions. The Conference Board's October survey of consumer confidence showed a decline; the University of Michigan's showed a rise. Reports of past and future actions by companies to shrink their payrolls are rife, yet employment is rising at a respectable pace. This is supposed to be a period of "deindustrialization," yet total industrial production has managed to edge upward during the past two years. Some argue the economic expansion will falter next year due to tax reform, an extraordinarily high office vacancy rate, and reduced fiscal stimulus. Similarly, at various times during the past two years it was contended that such problems as an overvalued dollar, an uncompetitive industrial sector, a sorely troubled agricultural economy, and a consumer sector overburdened with debt would cause economic growth to stall. Nevertheless, the economy has continued to expand, although real growth has indeed been below normal. Real GNP has risen at an average annualized rate of 2.5% since the second quarter of 1984 (just before the slowdown began) through the third quarter of this year. With continued improvement in exports as a result of the substantial depreciation of the dollar against major currencies, real GNP growth during 1987 may well exceed this year's estimated rate of 2.7% (on a fourth-quarter to fourth-quarter basis).

The collapse in oil and gas drilling activity has been an important negative factor in the economy's performance this year. The cutbacks in capital spending by the petroleum industry have reduced overall economic growth by six-tenths of a percentage point since the fourth quarter of last year. The oil rig count has been rising for several months now but is still at a painfully depressed level for the industry. If it continues to show gradual improvement, real GNP growth next year will consequently be on a better footing compared to this year. Moreover, the surge in oil imports this year, which pulled down GNP growth by eight-tenths of a percentage point, seems unsustainable. As a result, next year it will be less of a negative influence, although presumably some of the imports this year boosted inventories.

Much concern has been expressed during the last few years about the heavy burden of consumer debt. As of the end of the third quarter, consumer credit outstanding amounted to a record 19.6% of disposable personal income. To a considerable extent, the surge in credit is a mirror image of sustained high levels of auto sales; about 40% of the installment debt outstanding is auto credit. Our forecast and virtually all others call for a decline in auto sales next year. Growth in credit will also slow. In any case, the heavy burden of consumer indebtedness will probably continue to act as a damper on consumer spending but is not likely to precipitate a recession.

In sum, the economy is beset with problems on many fronts, yet so far it has plowed ahead, registering moderate growth. Next year will likely be another year of moderate growth in what we think will prove to be the longest peacetime expansion on record, by a wide margin.

Bernard Schoenfeld

Irving Trust

Economic Forecast

Percent Changes at Annual Rates

	Actual				Forecast				Actual	Forecast	
				1986				1987	1984-	1985-	1986-
	I	II	III	IV	I	II	III	IV	1985	1986	1987
Gross National Product	6.2	2.6	6.4	7.0	7.3	7.7	8.2	7.3	6.2	5.5	7.0
Real GNP	3.8	0.6	2.9	3.8	3.4	4.1	3.8	2.7	2.7	2.7	3.4
GNP Price Deflator	2.5	1.8	3.6	3.1	3.7	3.5	4.2	4.5	3.4	2.8	3.5

	Actual	Forecast	Actual	Forecast	
	1986:III	1986:IV	1984-1985	1985-1986	1986-1987
Consumer Spending	9.7%	1.7%	7.1%	6.1%	6.0%
Durable Goods	45.6	-21.2	8.5	6.6	1.9
Nondurable Goods	1.6	5.9	4.0	3.2	5.9
Services	6.7	6.2	8.9	7.9	7.2
Business Capital Spending	3.1	9.4	10.0	0.9	2.9
Structures	-4.2	8.2	11.1	-6.5	-0.7
Equipment	6.5	9.9	9.4	4.7	4.6
Residential Investment	12.8	11.7	5.7	13.5	8.7
			1985	1986	1987
Change in Inventories	$-8.0b.	$19.0b.	$11.1b.	$17.3b.	$31.9b.
Net Exports of Goods and Services	$-108.2b.	$-107.0b.	$-78.9b.	$-103.4b.	$-84.2b.
			1984-1985	1985-1986	1986-1987
Government Purchases	8.5%	7.3%	11.2%	6.4%	7.2%
Federal	5.7	6.8	13.7	4.1	7.0
Defense	12.2	6.7	10.4	8.2	7.7
Other	-12.4	6.6	24.3	-6.9	4.7
State & Local	10.4	7.7	9.3	8.1	7.4
Corporate Profits Before Tax	5.3*	5.3*	-5.3	5.9	9.5
Corporate Profits After Tax @	-1.1*F	-3.0*	-6.3	-1.6	6.3
Plant and Equipment Expenditures	3.0F	6.0	9.2	-2.0	2.0
Real Final Sales#	5.2	1.6	4.2	2.5	3.2
Real Disposable Personal Income	-2.3	-0.2	2.3	3.3	3.3

Economic Indicators	Recent Data			Actual	Forecast	
	Aug.	Sept.	Oct.	1984-1985	1985-1986	1986-1987
Consumer Price Index**	2.4%	3.6%	2.4%	3.7%	1.7%	4.1%
Producer Price Index for Finished Goods**	3.6	4.8	3.6	2.1	-1.9	3.7
Industrial Production	0.2	0.1	0.0	2.2	1.0	2.3
Retail Sales##	1.4	5.3	-5.0	6.4	5.1	5.2
				1985	1986	1987
Auto Sales (millions of units, a.r.)	12.7	16.1	10.3	11.1	11.4	10.6
Housing Starts (millions of units, a.r.)	1.80	1.65	1.65	1.74	1.83	1.66
Unemployment Rate	6.8%	7.0%	7.0%	7.2%	7.0%	6.6%
Merchandise Trade Deficit (a.r.)	$159.8b.	$150.7b.	$144.7b.	$148.5b.	$166.0b.	$145.0b.

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December 10, 1986

#GNP less change in inventories, both in real terms.
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Economic Outlook

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January 1987

The unknowns for the economy this year have to do more with degree than with direction. It is generally expected that the real merchandise trade deficit will shrink, while auto sales and commercial construction activity will slacken. Forecasts of real economic growth differ as to whether the improvement in trade will be substantial enough to offset weakness in other areas. Recent economic reports continue to indicate that the decline in the dollar against major currencies is indeed beginning to restore the competitiveness of many U.S. manufacturing industries. With interest rates likely to remain relatively low this year, the economy is expected to show moderate growth, with continued expansion at least through 1988. Real GNP is expected to rise 3.5% from the fourth quarter of 1986 to the fourth quarter of 1987, compared to an estimated 2.7% rise in 1986.

Much concern has been expressed regarding the possible negative effects of tax reform on capital spending. In addition, the high office vacancy rates in many parts of the country would indicate a falloff in new projects regardless of tax reform. Several aspects of tax reform, however, make investment in real estate much less attractive than was the case before 1987. As a result, it is not surprising that office construction expenditures fell 14.4% from November 1985 to November 1986. This weakness is likely to continue in 1987. Despite the loss of the investment tax credit, continued strong competition from imports makes it imperative for firms to invest in the best equipment available if they are to compete against foreign producers with significantly lower labor costs. As a result, real business capital spending is expected to remain unchanged this year, after declining an estimated 0.8% in 1986.

Housing starts declined during the course of 1986, but single-family starts may yet show improvement this spring. Total starts fell from 2 million units in the first quarter of 1986 to 1.6 million in November. The drop was particularly steep for multi-family housing, which is especially affected by tax reform. Mortgage rates have continued to edge downward, however, after rising during mid-1986. In December, the contract rate on fixed-rate mortgages averaged 9.3%, even lower than last spring. The housing market seemed to run ahead of itself early last year, with starts and prices racing ahead of what the market could absorb. With lower mortgage rates, more settled market conditions, and continued favorable demographic factors, it seems likely that the number of single-family starts will rise in the first half of this year, though starts may weaken once again during the second half. Housing starts are expected to total 1.65 million units this year, compared to an estimated 1.82 million in 1986 and 1.74 million in 1985.

The slowdown in inflation last year was astounding. As of November, the consumer price index was only 1.3% higher than a year ago. Of course, this result is a reflection of the decline in oil prices. Excluding energy, consumer prices rose 3.9%. With crude oil now selling at $19 a barrel, some upward pressure on gasoline prices is likely to be evident in coming months. Without the benefit of sharply declining oil prices, consumer prices are expected to rise 4.5%-5% from December 1986 to December 1987.

Bernard Schoenfeld

Irving Trust

Economic Forecast

Percent Changes at Annual Rates

	Actual				Forecast				Actual	Forecast	
				1986				1987	1984-	1985-	1986-
	I	II	III	IV	I	II	III	IV	1985	1986	1987
Gross National Product	6.2	2.6	6.4	7.3	6.9	8.5	8.0	7.4	6.2	5.6	7.2
Real GNP	3.8	0.6	2.8	3.8	3.3	4.1	3.8	2.7	2.7	2.7	3.3
GNP Price Deflator	2.5	1.8	3.7	3.4	3.6	4.2	4.1	4.5	3.3	2.8	3.7

	Actual	Forecast	Actual	Forecast	
	1986: III	1986: IV	1984-1985	1985-1986	1986-1987
Consumer Spending	10.3%	4.7%	7.1%	6.3%	6.9%
Durable Goods	51.0	-9.7	8.5	8.1	5.3
Nondurable Goods	1.9	7.4	4.0	3.3	6.7
Services	6.5	7.4	8.9	7.9	7.5
Business Capital Spending	1.3	10.0	10.0	0.7	3.3
Structures	-5.5	8.3	11.1	-6.7	-1.2
Equipment	4.5	10.8	9.4	4.5	5.4
Residential Investment	11.6	8.4	5.7	13.1	7.8
			1985	1986	1987
Change in Inventories	$-4.5b.	$13.5b.	$11.1b.	$16.8b.	$22.1b.
Net Exports of Goods and Services	$-108.9b.	$-114.7b.	$-78.9b.	$-105.5b.	$-93.3b.
			1984	1985-1986	1986-1987
Government Purchases	6.3%	7.2%	11.2%	6.1%	7.1%
Federal	1.9	7.0	13.7	3.7	6.5
Defense	12.6	7.0	10.4	8.3	7.9
Other	-26.5	6.4	24.3	-8.9	1.8
State & Local	9.6	7.4	9.3	7.9	7.5
Corporate Profits Before Tax	4.9*	4.9*	-5.3	5.1	9.9
Corporate Profits After Tax	1.9*	0.2*	-6.3	1.1	9.6
Plant and Equipment Expenditures	-0.4	5.3	9.2	-1.7	2.0
Real Final Sales#	4.5	2.7	4.2	2.5	3.3
Real Disposable Personal Income	-3.0	-1.2	2.3	3.0	3.3

Economic Indicators	Recent Data			Actual	Forecast	
	Sept.	Oct.	Nov.	1984-1985	1985-1986	1986-1987
Consumer Price Index**	3.6%	2.4%	3.6%	3.7%	1.4%	4.7%
Producer Price Index for Finished Goods**	6.0	3.6	2.4	2.1	-2.5	3.9
Industrial Production	0.0	0.1	0.6	2.2	1.0	2.3
Retail Sales##	5.6	-5.2	0.5	6.4	5.1	5.2
				1985	1986	1987
Auto Sales (millions of units, a.r.)	16.1	10.3	10.5	11.1	11.6	10.6
Housing Starts (millions of units, a.r.)	1.66	1.63	1.60	1.74	1.82	1.65
Unemployment Rate	7.0%	6.9%	6.9%	7.2%	7.0%	6.4%
Merchandise Trade Deficit (a.r.)	$150.7b.	$144.7b.	$230.7b.	$148.5b.	$174.0b.	$155.0b.

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#GNP less change in inventories, both in real terms.
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January 13, 1987

Economic Outlook

Irving Trust

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Economic Research &
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February 1987

The recent spectacular surge in stock prices has raised an inevitable question: Will the economy accelerate this year to justify the market rally? Some acceleration is indeed expected in our forecast. Real GNP is projected to rise 3.5% from the fourth quarter of last year to the fourth quarter of this year, compared to an increase of 2.2% in 1986.

A narrowing trade deficit is the key to the expected acceleration. After a long time lag, the effect of a sharply lower dollar has finally begun to be felt. The non-oil trade deficit in real terms shrank in the last two quarters of 1986. Further reductions are expected this year. Export growth should be strong, while the increase in imports is likely to be slowed by higher import prices. Consumer expenditures are expected to continue to provide support for the economy. Although the high debt burden may restrain spending somewhat, the reduction in personal income taxes (due to tax reform) and the wealth effect (resulting from the stock market rally) should be more than enough to offset this drag. When the Tax Reform Act was passed, the reduction in individual income taxes was estimated to be $14 billion in 1987, a cut of nearly 4%. Furthermore, the effect of the tax cut is likely to be augmented by underwithholding, at least initially. The withholding schedule is geared to the new law's lower rates and larger exemptions, but probably does not fully take into consideration the elimination of many deductions and credits. As a result, people may get a tax cut larger than they should in their paychecks this year. Of course, they will owe the difference when they file their returns in April 1988.

Fiscal restraint and lackluster business investment will be the major drags on the economy this year. About a $50 billion reduction in the Federal deficit is currently expected this year by both the OMB and the CBO. This could lower real GNP growth by about 1% compared to what it otherwise would be. Moreover, a recent survey indicates that the business sector plans no real increase in capital spending this year. Investment in commercial properties, already beset by overbuilding, will be hit hard by tax reform. Although the collapse of oil drilling activities is behind us, a meaningful rebound in this sector seems unlikely this year. In general, the loss of the investment tax credit has in effect raised the price of capital equipment by 10%. Therefore, some previously marginally profitable investment projects may now be scratched.

The sluggish pace of economic growth since mid-1984 has indeed caused pain in certain areas. The unemployment rate has changed little during this period, while the industrial sector has essentially moved sideways. Nonetheless, the sluggishness has some positive aspects. The economic recovery, which began in late 1982, has now entered its fifth year. Normally, labor shortages, capacity constraints, and upward pressure on interest rates would be evident after so many years of economic expansion. These factors would normally slow the economy, and eventually a contraction would ensue. The economy faces none of these constraints right now: The rise in labor costs remains moderate, the capacity utilization rate indicates slack still exists, and only a moderate increase in interest rates is expected this year. As a result, the economy still has plenty of room for further expansion.

Victor Kung

Irving Trust

Economic Forecast

Percent Changes at Annual Rates

	Actual 1986 I	II	III	IV	Forecast 1987 I	II	III	IV	Actual 1984-1985	1985-1986	Forecast 1986-1987
Gross National Product	6.2	2.6	6.4	2.6	7.4	8.3	8.4	7.7	6.2	5.3	6.4
Real GNP	3.8	0.6	2.8	1.7	3.3	4.1	3.8	2.7	2.7	2.5	2.9
GNP Price Deflator	2.5	1.8	3.6	1.0	4.0	4.0	4.5	4.9	3.3	2.7	3.3

	Actual 1986: IV	Forecast 1987: I	Actual 1984-1985	1985-1986	Forecast 1986-1987
Consumer Spending	2.9%	6.3%	7.1%	6.2%	6.5%
Durable Goods	-9.6	-8.0	8.5	8.1	3.7
Nondurable Goods	3.1	10.7	4.0	3.0	6.5
Services	6.6	7.6	8.9	7.9	7.2
Business Capital Spending	-0.8	0.5	10.0	0.1	1.5
Structures	-2.6	0.3	11.1	-7.2	-3.1
Equipment	0.0	0.6	9.4	3.8	3.6
Residential Investment	6.1	9.0	5.7	12.9	7.7
			1985	1986	1987
Change in Inventories	$-8.3b.	$20.0b.	$11.1b.	$11.4b.	$25.3b.
Net Exports of Goods and Services	$-115.6b.	$-113.0b.	$-78.9b.	$-105.7b.	$-96.9b.
			1984-1985	1985-1986	1986-1987
Government Purchases	7.4%	-1.2%	11.2%	6.1%	5.1%
Federal	7.8	-12.6	13.7	3.7	1.7
Defense	-6.7	4.3	10.4	7.3	4.5
Other	70.6	-51.2	24.3	-6.1	-6.9
State & Local	7.0	7.9	9.3	8.0	7.5
Corporate Profits Before Tax	8.5*F	17.2*	-5.3	6.0F	12.7
Corporate Profits After Tax	3.0*F	16.1*	-6.3	1.8F	12.6
Plant and Equipment Expenditures	1.8F	1.2	9.2	-2.8F	1.8
Real Final Sales#	3.0	0.0	4.2	2.5	2.6
Real Disposable Personal Income	-0.5	4.6	2.3	3.0	2.7

Economic Indicators	Recent Data Oct.	Nov.	Dec.	Actual 1984-1985	1985-1986	Forecast 1986-1987
Consumer Price Index**	2.4%	3.6%	2.4%	3.7%	1.1%	4.8%
Producer Price Index for Finished Goods**	3.6	2.4	0.0	1.8	-2.5	4.0
Industrial Production	3.6	7.2	6.0	2.2	1.0	2.5
Retail Sales#**	-5.2	-0.6	4.4	6.4	5.2	5.3
				1985	1986	1987
Auto Sales (millions of units, a.r.)	10.3	10.5	13.6	11.0	11.5	10.7
Housing Starts (millions of units, a.r.)	1.63	1.59	1.80	1.74	1.81	1.66
Unemployment Rate	6.9%	6.9%	6.7%	7.2%	7.0%	6.4%
Merchandise Trade Deficit (a.r.)	$-176.6b.	$-185.3b.	$-127.9b.	$-139.7b.	$-169.8b.	$150.0b.

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February 6, 1987

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Planning Division

March 1987

Recently released economic indicators are painting two very different pictures of the economy. Sales and new orders plunged in January, but employment and production continued to post strong gains. One has to wonder which set of data more adequately reflects the underlying economic conditions. The declines in sales and new orders in January were heavily influenced by tax reform. Consumers rushed their purchases of big ticket items and many businesses timed their purchases of equipment toward the end of 1986 while they could still qualify for more lucrative tax benefits under the old tax law. As a result, would-be January sales were moved into late 1986, and sales subsequently plummeted in January. A better reading of the underlying tone of the economy could probably be obtained by averaging the January and December data. For example, in the two-month period of January and December, both retail sales and factory orders were 1.3% higher than in the previous two months. This suggests that the sharp declines in sales and orders in January were simply reactions to the December aberration rather than a reflection of fundamental economic weakness. The strong gains in employment and the recovery of auto sales in February provide further evidence of a relatively robust economy.

As the increases in production are likely to outpace the increases in sales this quarter, a large inventory accumulation is expected. With inventory/sales ratios extremely low in most industries at the end of 1986, businesses will likely see this buildup as desirable, and production cutbacks should not result. Due in large part to this inventory buildup, real GNP growth is expected to be 3% or better in the current quarter. The increase in final sales, however, is likely to be disappointing.

Will a small increase or even a decline in final sales this quarter pave the way for sluggish growth in the second quarter? This is what happened last year, when the first quarter's strong growth of 3.8% was followed by the second quarter's weak growth of 0.6%. A repeat of this growth pattern, however, is unlikely this year. The sluggishness in the second quarter of 1986 was caused by a significant slowdown in inventory investment and a sharp deterioration in net exports. As the expected inventory buildup in the current quarter would still leave inventory/sales ratios at relatively comfortable levels, only a moderate slowdown in inventory accumulation is expected in this year's second quarter. Net exports are expected to continue to strengthen throughout this year. As a result, in spite of a large inventory buildup in the current quarter, no slowdown in economic growth in the second quarter is expected.

For the last two years, a sluggish industrial sector has been a major drag on overall growth. From the fourth quarter of 1984 to the fourth quarter of 1986, industrial production increased at an annual rate of only 1.4%, compared to real GNP growth of 2.5%. Foreign competition was often cited as the main factor behind the industrial malaise. A much lower dollar has now significantly improved the competitiveness of the U.S. industrial sector. In the fourth quarter of 1986, trade-related improvements boosted industrial production growth to an annualized rate of 3%, the strongest performance since mid-1984. Continuing to benefit from the more favorable competitive position, the industrial sector is likely to grow faster than the overall economy this year.

Victor Kung

Irving Trust

Economic Forecast

Percent Changes at Annual Rates

	Actual 1986				Forecast 1987				Actual	Forecast
	I	II	III	IV	I	II	III	IV	1984-1985	1985-1986	1986-1987
Gross National Product	6.2	2.6	6.4	1.9	7.2	7.2	8.5	7.8	6.2	5.2	6.0
Real GNP	3.8	0.6	2.8	1.3	3.1	3.5	4.1	3.3	2.7	2.5	2.8
GNP Price Deflator	2.5	1.8	3.6	0.7	4.0	3.6	4.2	4.4	3.3	2.6	3.1

	Actual 1986: IV	Forecast 1987: I	Actual 1984-1985	Actual 1985-1986	Forecast 1986-1987
Consumer Spending	3.3%	3.9%	7.1%	6.3%	6.0%
Durable Goods	-9.5	-16.0	8.5	8.1	1.7
Nondurable Goods	3.0	7.9	4.0	3.0	5.8
Services	7.4	7.3	8.9	7.9	7.3
Business Capital Spending	2.1	0.6	10.0	0.2	2.1
Structures	-7.5	-0.3	11.1	-7.6	-4.1
Equipment	6.5	1.0	9.4	4.2	5.0
Residential Investment	9.3	9.5	5.7	13.1	8.7
			1985	1986	1987
Change in Inventories	$-22.5b.	$24.0b.	$11.1b.	$7.8b.	$24.8b.
Net Exports of Goods and Services	$-113.6b.	$-112.5b.	$-78.9b.	$-105.2b.	$-101.3b.
			1984-1985	1985-1986	1986-1987
Government Purchases	5.8%	-2.7	11.2%	6.0%	4.3%
Federal	5.2	-14.6	13.7	3.5	0.6
Defense	-8.2	4.9	10.4	7.2	4.3
Other	62.8	-57.3	24.3	-6.4	-10.8
State & Local	6.3	6.7	9.3	7.9	7.1
Corporate Profits Before Tax	6.4*F	15.0*	-5.3	5.5	11.1
Corporate Profits After Tax	1.0*F	8.0*	-6.3	1.3	12.3
Plant and Equipment Expenditures	1.8F	1.2	9.2	-2.8F	1.8
Real Final Sales#	4.0	-1.7	4.2	2.6	2.4
Real Disposable Personal Income	-1.4	2.7	2.3	2.9	2.1

Economic Indicators	Recent Data Nov.	Dec.	Jan.	Actual 1984-1985	Actual 1985-1986	Forecast 1986-1987
Consumer Price Index**	2.4%	2.4%	8.4%	3.8%	1.1%	4.7%
Producer Price Index for Finished Goods**	1.2	-1.2	7.2	1.8	-2.5	4.2
Industrial Production	7.2	3.6	4.8	2.2	1.0	3.3
Retail Sales##	-0.5	4.6	-5.8	6.4	5.3	4.5
				1985	1986	1987
Auto Sales (millions of units, a.r.)	10.5	13.6	8.2	11.0	11.5	10.7
Housing Starts (millions of units, a.r.)	1.64	1.81	1.81	1.74	1.81	1.66
Unemployment Rate	6.9%	6.7%	6.7%	7.2%	7.0%	6.5%
Merchandise Trade Deficit (a.r.)	$-230.7b.	$-127.9b.	$-177.4b.	$-148.5b.	$-169.8b.	$-155.0b.

Unless noted otherwise, all data are period-to-period percent changes at annual rates, derived from seasonally adjusted data.

March 11, 1987

#GNP less change in inventories, both in real terms.
##Monthly percent changes are not annualized.
*Year-over-year percent changes.
**Annual percent changes are December to December (not seasonally adjusted).

$b. = billions a.r. = annual rate F = Forecast

Economic Outlook

5/11/87 B4750-2

Irving Trust

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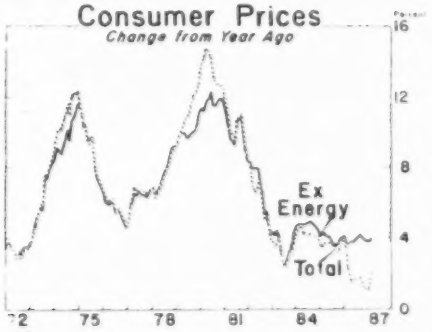
Economic Research & Planning Division

April 1987

After more than two years of economic sluggishness, faster growth appears to have arrived. Signs of accelerated economic growth include respectable increases in employment and industrial production in the last two quarters, the recovery of business sales and new orders from January's slump, large gains in consumer income, the continued willingness of consumers to spend, and the narrowing of the trade deficit in real terms. The recent rise in the prime rate, which usually lags behind economic upturns, further confirmed that the economy has strengthened in recent months.

Faster economic growth this year will be accompanied by higher inflation. Although the annualized rate of increase in consumer prices of 6.7% in the first two months of this year overstates underlying inflationary pressure, an acceleration of inflation from last year's 1.1% is assured. As the following chart shows, the sharp decline in energy prices was solely responsible for last year's extremely low inflation rate. Excluding energy, the rate of inflation has remained remarkably stable at around 4% in the last three years. Simply the absence of further declines in oil prices this year would likely return the inflation rate to the 3.5%-4% range. However, oil prices have risen and are likely to stay at around $18 per barrel for the rest of this year. The rise in import prices resulting from the substantial depreciation of the dollar will also add to inflationary pressures. Prices for non-oil imports increased by more than 8% in 1986, and will rise further as the decline in the dollar continues. The rise in import prices also affords domestic producers more flexibility in raising their prices. As a result, price increases in the non-energy sector in 1987 will probably exceed the 4% rate that persisted in recent years. This, together with the rise in energy prices, will push the overall rate of inflation to close to 5% this year.



In the short-run, this moderate resurgence of inflation will be a stimulus to the economy. In the last two years, firms have kept inventories extremely lean. A resurgence of inflation this year will induce businesses to hold more inventories because they will profit from the price appreciation. We expect that inventory restocking will contribute 0.8% to real GNP growth this year,

(Continued)

in contrast to a negative contribution of 0.9% from reduced inventory investment in 1986. Consumer and business spending may also be stronger under higher inflation than they otherwise would be. The expectation of price increases provides an incentive for business and consumers to spend now rather than later.

Looking further ahead, 1987 may mark only the beginning of an upswing in inflation. The effect of the dollar depreciation so far has not yet been fully transmitted to domestic prices. Therefore, even in the unlikely event that the dollar were to stabilize at around current levels, inflation could still intensify in coming years. The failure of the Paris accord to stem the depreciation of the dollar suggests that short of a decisive reduction in the U.S. trade deficit, the dollar will have to fall further. The result will be even higher import prices and higher domestic inflation. Admittedly, this inflationary pressure could be curbed by a policy induced contraction of domestic demand. However, such a contraction risks a recession, and this risk may be too high a price to pay right now. The unabated LDC debt problem and an already strained world financial system limit policy makers' options. Between risk of inflation and risk of recession, inflation may seem the lesser evil to policy makers.

Victor Kung

Real GNP

(Percent Contribution to Real GNP Growth; Annual Rates)	Actual 1986				Forecast 1987				Actual		Forecast
	I	II	III	IV	I	II	III	IV	1984-1985	1985-1986	1986-1987
Consumer Spending	2.4	4.0	4.4	-0.2	-0.9	2.2	2.0	1.7	2.2	2.6	1.2
Business Investment	-2.1	-0.1	-0.3	0.4	-0.4	-0.1	0.1	0.3	1.1	-0.1	0.0
Residential Investment	0.5	0.6	0.5	0.3	0.3	0.3	-0.2	-0.2	0.2	0.5	0.2
Change in Inventories*	2.1	-2.9	-2.4	-0.4	3.0	-0.5	0.8	0.1	-1.0	-0.2	0.3
Net Exports	0.7	-3.0	-1.0	1.6	0.8	0.9	0.9	0.9	-0.7	-1.1	0.5
Government Purchases*	0.2	2.0	1.6	-0.6	0.3	0.6	0.5	0.5	0.9	0.8	0.5
Real GNP	3.8	0.6	2.8	1.1	3.1	3.4	4.1	3.3	2.7	2.5	2.7

Quarterly Economic Indicators

(Percent Changes at Annual Rates)	Actual 1986				Forecast 1987				Actual		Forecast
	I	II	III	IV	I	II	III	IV	1984-1985	1985-1986	1986-1987
Nominal GNP	6.2	2.6	6.4	1.7	7.4	7.4	8.4	7.6	6.2	5.2	6.0
GNP Deflator	2.5	1.8	3.6	0.7	4.2	3.8	4.1	4.2	3.3	2.7	3.2
Corporate Profits After Tax#	0.7	1.7	1.9	3.4	15.8	16.3	11.6	4.4	-6.3	1.9	11.8

Monthly Economic Indicators

	Recent Data			Actual		Forecast
	Dec.	Jan.	Feb.	1985	1986	1987
Consumer Price Index** (%)	0.2	0.7	0.4	3.8	1.1	4.8
Industrial Production (%)	0.5	0.1	0.5	2.2	1.0	3.3
Retail Sales (%)	4.9	-7.4	4.1	6.4	5.3	3.5
Auto Sales (million units, a.r.)	13.6	8.2	9.9	11.0	11.5	10.5
Housing Starts (million units, a.r.)	1.81	1.80	1.85	1.74	1.81	1.70
Unemployment Rate (%)	6.7	6.7	6.7	7.2	7.0	6.5
Merchandise Trade Deficit ($ bn., a.r.)	-152.4	-147.6	-181.2	-139.7	-166.3	-155.0

*Adjusted for CCC purchases. **Annual percent changes are December to December.
#Quarterly data are year-over-year percent changes.
a.r.=annual rate F=Forecast

B4750-2
6/10/87

Economic Outlook

Irving Trust

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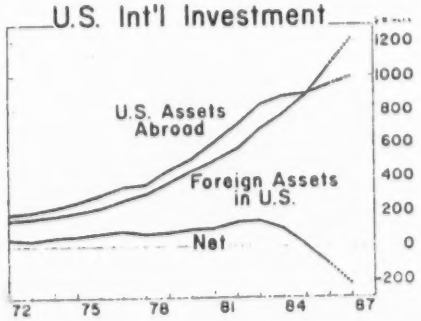
Economic Research &
Planning Division

May 1987

The dollar has occupied the economic center stage in recent weeks. Although the latest decline was no larger than previous episodes of dollar weakness, the fact that the decline occurred in spite of the G-7 agreement to stabilize the dollar has had a negative impact on market psychology. Foreign investors, faced with the prospect of further dollar depreciation and therefore further erosion in the value of their dollar portfolios, became reluctant to take on additional investments in dollar assets. This was a factor in the recent rise in U.S. interest rates. The resultant significant widening of the interest rate differential with foreign countries seems to have stabilized the dollar in recent trading. However, this stability is probably only a pause in the long-term downward trend.

As the following chart shows, as a result of our huge trade deficits in the last several years, the U.S. has now become the world's largest debtor country. Our net foreign debt was estimated at $200 billion at the end of 1986, twice as large as Brazil's. Our continuing large trade deficit plus net interest payments to foreign creditors suggest that our external debt will keep growing. It is estimated that by the end of this decade our net external debt will reach at least half a trillion dollars. Foreign creditors, who have already suffered huge losses due to the sharp depreciation of the dollar since early 1985, are unlikely to want to continue to increase their lending to us. The imbalance between our financing requirements and the willingness of foreign sources to lend to us strongly suggests that the dollar will have to fall further. The dollar may even become substantially undervalued before the downtrend is arrested. Even when the dollar falls to the level where our trade might eventually balance, our trade deficit will remain large because of the lag between exchange rate adjustment and trade improvement. As the financing gap will continue to exist, the dollar will likely overshoot and become undervalued.



Amid concerns for the dollar, signs of economic strength seem to have been overlooked. Real GNP expanded at an annual rate of 4.3% in the first quarter, the strongest performance since the economic slowdown began in mid-1984. As expected, almost all of the first quarter growth came from inventory buildup, while real final sales increased only 0.1%. The sharp rise in inventories in the first quarter seems to indicate that economic growth may slow down in the current quarter. Nonetheless, the deceleration is likely to be only moderate.

(Continued)

The problem of inventory overhang is concentrated in the auto industry. Auto inventories rose sharply in the first quarter, while inventories in all other industries continued to be drawn down. This suggests that a reduction in auto inventories in the current quarter may be offset by inventory restocking in other industries. With the recent sharp rise in commodity prices and the resultant revival of inflationary psychology, it seems quite likely that those businesses whose inventories are not excessive currently will begin to restock in anticipation of future price increases.

Signs of accelerated inflation are becoming increasingly apparent. Commodity prices, both spot and future, have risen sharply in recent weeks. Producer prices increased at an annual rate of close to 5% in the first four months of this year, compared to a decline of 2.3% for all of 1986. The rise in import prices, excluding oil and food, continued to accelerate and reached 9.5% in the first quarter. One positive factor for the inflation outlook is that the rise in labor costs remains moderate. However, as the unemployment rate has dropped to 6.3%, close to the frictional level, the potential for a significant rise in wage costs cannot be overlooked.

Victor Kung

Real GNP

(Percent Contribution to Real GNP Growth; Annual Rates)	Actual				Forecast				Actual	Forecast	
			1986	1987			1987	1988	1985-	1986-	1987-
	II	III	IV	I	II	III	IV	I	1986	1987	1988
Consumer Spending	4.0	4.4	-0.2	-0.3	2.2	2.0	1.7	1.3	2.6	1.4	1.5
Business Investment	-0.1	-0.3	0.4	-1.6	0.8	0.2	0.2	0.3	-0.1	-0.2	0.4
Residential Investment	0.6	0.5	0.3	-0.4	0.2	-0.2	-0.2	-0.1	0.5	0.0	0.0
Change in Inventories*	-2.9	-2.4	-0.4	4.2	-2.1	0.2	0.3	0.3	-0.2	0.2	0.0
Net Exports	-3.0	-1.0	1.6	1.5	0.6	0.9	0.9	0.5	-1.1	0.7	0.6
Government Purchases*	2.0	1.6	-0.6	0.9	0.8	0.5	0.5	0.5	0.8	0.7	0.5
Real GNP	0.6	2.8	1.1	4.3	2.5	3.6	3.4	2.8	2.5	2.8	3.0

Quarterly Economic Indicators

(Percent Changes at Annual Rates)	Actual				Forecast				Actual	Forecast	
			1986	1987			1987	1988	1985-	1986-	1987-
	II	III	IV	I	II	III	IV	I	1986	1987	1988
Nominal GNP	2.6	6.4	1.7	7.8	6.6	8.1	7.9	7.8	5.2	5.9	8.1
GNP Deflator	1.8	3.6	0.7	3.5	3.8	4.3	4.5	4.9	2.7	3.1	4.9
Corporate Profits After Tax#	1.7	1.9	3.7	15.3F	15.3	10.6	5.1	4.7	2.0	11.4	8.2

Monthly Economic Indicators

	Recent Data			Actual	Forecast	
	Feb.	Mar.	Apr.	1986	1987	1988
Consumer Price Index** (%)	0.4	0.4	n.a.	1.1	5.1	6.0
Industrial Production (%)	0.4	-0.2	-0.4	1.0	2.5	3.5
Retail Sales (%)	4.8	0.8	0.1	5.5	4.5	5.8
Auto Sales (million units, a.r.)	9.9	10.1	10.5	11.5	10.5	10.0
Housing Starts (million units, a.r.)	1.83	1.75	1.70	1.81	1.71	1.62
Unemployment Rate (%)	6.7	6.6	6.3	7.0	6.3	5.9
Merchandise Trade Deficit ($ bn., a.r.)	-181.2	-163.2	n.a.	-166.3	-155.0	-135.0

*Adjusted for CCC purchases. **Annual percent changes are December to December.
#Quarterly data are year-over-year percent changes.
a.r.=annual rate F=Forecast

Economic Outlook

7/1/87 B4750-2

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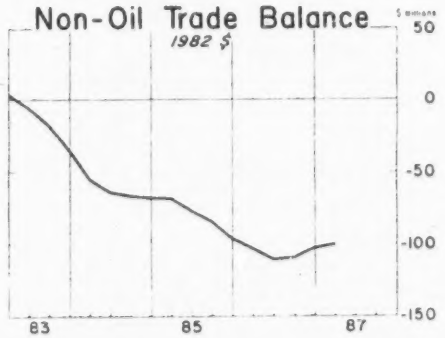
Economic Research & Planning Division

June 1987

Recently released economic indicators are consistent with our forecast of moderate growth in the second quarter. Average retail sales in April and May were 1.6% higher than in the first quarter. This suggests that, after two consecutive quarters of declines, consumer spending will again contribute positively to economic growth. The latest capital spending survey, conducted in April and May, indicated that businesses plan to increase their investment expenditures sharply this quarter. This survey result is confirmed by the rise in civilian capital goods orders in recent months. The continued increases in military orders since February also suggest that the anticipated slowdown in defense spending will probably not occur until the second half of this year. On the other hand, inventory investment will drop sharply, cutting overall growth well below the first quarter's 4.8%.

In the second half of this year final sales are expected to continue to grow, while inventory investment seems unlikely to be reduced further. Excessive auto inventories may continue to pose problems, but any further reductions in auto inventories will likely be offset by restocking in other industries. As a result, real GNP growth is forecast to average 3 1/2% in the final two quarters of this year. Although in nominal terms our trade deficit began to stabilize only recently, as the following chart shows, in volume terms our non-oil trade deficit has narrowed since mid-1986. This improvement, which has been contributing an average of 1/2% to real GNP growth in the last three quarters, will likely accelerate in view of the further depreciation of the dollar early this year.



The extremely low savings rate in April has caused concerns over the sustainability of consumer spending growth. However, it should be noted that the low savings rate in April was due to large tax payments on capital gains realized in late 1986 when investors rushed to unload their portfolios in order to take advantage of the more favorable tax treatment for capital gains under the old tax law. Therefore, as those taxes most likely were not paid out of current income but rather from money set aside at the time when capital gains were realized, the low savings rate in April overstated how stretched consumers really are. The consistent rise in consumer confidence (measured by the Conference

(Continued)

Board index) since the beginning of this year further indicates that moderate consumer spending increases will be maintained for the remainder of this year. Improved profitability and enhanced sales prospects as a result of lessened foreign competition may also induce U.S. business to spend more on capital investment. On the other hand, higher interest rates may be a drag on investment. But since the rise in rates should mainly reflect heightened inflationary expectations, the negative effect of higher nominal rates on investment should be small as real interest rates remain unchanged.

After hovering around 7% for most of 1985 and 1986, the unemployment rate has dropped considerably in recent months. The current national unemployment rate of 6.3% is the lowest since the beginning of this decade. An all-time high employment/population ratio of 62% provides further evidence of a tightening labor market. The recent improvement in the labor market, however, was unevenly distributed within the nation. The Northeast corridor--from Washington, D.C. to Boston--showed the greatest improvement, while the oil-producing states in the Southwest and Alaska remained depressed.

Victor Kung

Real GNP

(Percent Contribution to Real GNP Growth; Annual Rates)	Actual				Forecast				Actual	Forecast	
			1986	1987			1987	1988	1985-	1986-	1987-
	II	III	IV	I	II	III	IV	I	1986	1987	1988
Consumer Spending	4.0	4.4	-0.2	-0.8	2.1	2.0	1.7	1.3	2.6	1.3	1.5
Business Investment	-0.1	-0.3	0.4	-1.2	0.8	0.2	0.3	0.3	-0.1	-0.1	0.4
Residential Investment	0.6	0.5	0.3	-0.3	0.0	-0.2	-0.2	-0.1	0.5	0.1	0.0
Change in Inventories*	-2.9	-2.4	-0.4	4.8	-2.6	0.2	0.3	0.3	-0.2	0.2	0.0
Net Exports	-3.0	-1.0	1.6	1.6	1.0	1.0	0.9	0.5	-1.1	0.6	0.6
Government Purchases*	2.0	1.6	-0.6	0.7	0.7	0.5	0.5	0.5	0.8	0.7	0.5
Real GNP	0.6	2.8	1.1	4.8	2.0	3.7	3.5	2.8	2.5	2.8	3.0

Quarterly Economic Indicators

(Percent Changes at Annual Rates)	Actual				Forecast				Actual	Forecast	
			1986	1987			1987	1988	1985-	1986-	1987-
	II	III	IV	I	II	III	IV	I	1986	1987	1988
Nominal GNP	2.6	6.4	1.7	9.1	6.3	8.0	8.1	7.8	5.2	6.2	8.1
GNP Deflator	1.8	3.6	0.7	4.2	4.1	4.1	4.5	4.9	2.7	3.3	4.9
Corporate Profits After Tax#	1.7	1.9	3.7	9.4	11.7	7.2	1.8	7.0	2.0	7.3	5.4

Monthly Economic Indicators

	Recent Data			Actual	Forecast	
	Mar.	Apr.	May	1986	1987	1988
Consumer Price Index** (%)	0.4	0.4	n.a.	1.1	5.1	6.0
Industrial Production (%)	0.0	-0.1	0.5	1.0	2.9	3.5
Retail Sales (%)	0.3	0.2	-0.6	5.5	3.4	5.8
Auto Sales (million units, a.r.)	10.1	10.5	9.8	11.5	10.3	10.0
Housing Starts (million units, a.r.)	1.73	1.67	1.62	1.81	1.67	1.63
Unemployment Rate (%)	6.6	6.3	6.3	7.0	6.3	5.9
Merchandise Trade Deficit ($ bn., a.r.)	-163.2	-159.6	n.a.	-166.3	-155.0	-135.0

*Adjusted for CCC purchases. **Annual percent changes are December to December.
#Quarterly data are year-over-year percent changes.
a.r.=annual rate F=Forecast

Economic Outlook

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Economic Research &
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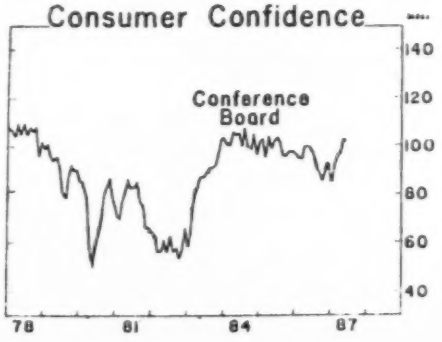
July 1987

The current economic expansion has lasted for 56 months now, only two months short of the previous record for peacetime, which was the expansion between 1975 and 1980. Although it is generally agreed that a recession will not arrive soon, this expansion has certainly aged. Signs of the maturing of the expansion include the recent rise in interest rates, the acceleration of inflation, the slowdown in consumer spending, and a gradually tightening labor market. In the last two long-lived business expansions (1960-69 and 1975-80), the mature phase lasted for more than two years. We expect that the last phase of the current expansion will also be extended. As a result, our forecast foresees no economic recession until 1989.

There has been concern about the impact of the recent rise in interest rates on the economy. Rising interest rates will indeed eventually slow the economy, but it may take quite a while before they take their toll. In the 1975-80 expansion, it was not until two years and a six percentage point increase that the expansion faltered. The recent rise in interest rates is still too small and too recent to have any major negative impact on the economy.

There has also been a lot of concern about consumer spending leveling off in recent quarters. In this mature stage of a business expansion, a slowdown in consumer spending growth should be expected. After years of vigorous spending, consumers have satisfied most of their demand for cars and other consumer durables, and in the meantime have strained their financial position. Although consumers will no longer drive the economy, a collapse of consumer spending seems quite unlikely either. As the following chart shows, consumer confidence remains strong, buoyed by the favorable employment situation. The sharp declines in the unemployment rate in recent months signal a tightening labor market, and likely portend an acceleration in wage increases by year-end. Consumer income will also get an additional boost from the $40 billion reduction in individual income taxes next year as tax reform takes full effect.



Instead of being led by consumers, the last phase of the current expansion will be driven by steady improvement in our trade balance and stronger business investment. Because there is a long lag between exchange rate adjustments and their effect on the trade balance, the recent narrowing of our trade deficit in volume terms largely reflected only the effect of 1985's dollar depreciation.

(Continued)

Since then, the dollar has depreciated by another 18%. Even in the unlikely event that the dollar bottoms out at current levels, substantial trade improvement remains in the pipeline. The climate for business investment is also turning favorable, paving the way for a pickup in capital spending in 1988. Corporate profits are expected to improve substantially this year as a result of reduced pressure from foreign competition and selective price increases. Although capacity constraints are not yet present in general, they are already quite intense in certain industries, such as textiles and paper. The consistent upward revision in corporate capital spending plans for 1987 also suggests rising confidence in the business sector.

In summary, the economic expansion which began in 1982 has entered a mature phase. A cyclical upturn in inflation and interest rates is expected in this last phase of the expansion. Nonetheless, the expansion is unlikely to be halted by higher interest rates soon, as trade improvement continues to provide underlying support of the economy.

Victor Kung

Real GNP

(Percent Contribution to Real GNP Growth; Annual Rates)	Actual				Forecast				Actual	Forecast	
			1986	1987			1987	1988	1985-	1986-	1987-
	II	III	IV	I	II	III	IV	I	1986	1987	1988
Consumer Spending	4.0	4.4	-0.2	-0.8	1.7	2.0	1.7	1.3	2.6	1.2	1.5
Business Investment	-0.1	-0.3	0.4	-1.2	0.8	0.2	0.3	0.2	-0.1	-0.1	0.4
Residential Investment	0.6	0.5	0.3	-0.3	0.0	-0.2	-0.2	-0.1	0.5	0.1	0.0
Change in Inventories*	-2.9	-2.4	-0.4	4.8	-2.3	0.2	0.3	0.1	-0.2	0.2	0.0
Net Exports	-3.0	-1.0	1.6	1.6	1.1	1.0	0.9	0.6	-1.1	0.8	0.6
Government Purchases*	2.0	1.6	-0.6	0.7	0.7	0.5	0.5	0.5	0.8	0.6	0.5
Real GNP	0.6	2.8	1.1	4.8	2.0	3.7	3.5	2.6	2.5	2.8	3.0

Quarterly Economic Indicators

(Percent Changes at Annual Rates)	Actual				Forecast				Actual	Forecast	
			1986	1987			1987	1988	1985-	1986-	1987-
	II	III	IV	I	II	III	IV	I	1986	1987	1988
Nominal GNP	2.6	6.4	1.7	9.1	6.0	8.0	8.1	7.6	5.2	6.1	8.0
GNP Deflator	1.8	3.6	0.7	4.2	3.8	4.1	4.5	4.9	2.7	3.2	4.9
Corporate Profits After Tax#	1.7	1.9	3.7	9.4	12.3	8.5	3.7	8.5	2.0	8.3	6.9

Monthly Economic Indicators

	Recent Data			Actual	Forecast	
	Apr.	May.	Jun.	1986	1987	1988
Consumer Price Index** (%)	0.4	0.3	n.a.	1.1	5.2	6.1
Industrial Production (%)	0.0	0.5	0.2	1.0	2.9	3.9
Retail Sales (%)	0.3	-0.3	0.4	5.5	3.6	4.2
Auto Sales (million units, a.r.)	10.5	9.8	10.1	11.5	10.1	10.0
Housing Starts (million units, a.r.)	1.67	1.62	n.a.	1.81	1.67	1.61
Unemployment Rate (%)	6.3	6.3	6.1	7.0	6.3	5.7
Merchandise Trade Deficit ($ bn., a.r.)	-159.6	-172.8	n.a.	-166.3	-155.0	-135.0

*Adjusted for CCC purchases. **Annual percent changes are December to December.
#Quarterly data are year-over-year percent changes.
a.r.=annual rate F=Forecast

Economic Outlook

2/17/87 84750-2

Irving Trust

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Economic Research & Planning Division

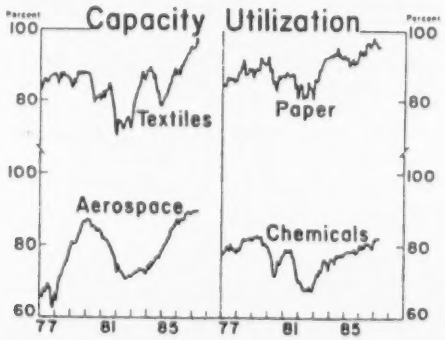
August 1987

The U.S. economy has been successfully transformed from an economy driven by strong domestic demand to one in which a major impetus comes from improvement in trade. The following table chronicles the transition. Between mid-1984 and mid-1986, strong increases in domestic demand were offset by widening trade deficits. Real GNP growth averaged 2.9% per annum during that period. The transition began in the second half of last year, when the non-oil trade deficit bottomed out, though the rise in oil imports continued to detract from growth. With weakened domestic demand and little improvement in trade, economic growth dropped to 1.5% in the second half of 1986. In the first half of this year, the long-awaited improvement in trade finally began, and a narrowing trade deficit added 1.3% to economic growth. Although the growth in domestic demand remained moderate, the improvement in trade lifted overall economic growth in the first half of this year to 3.5%.

Contribution to Real GNP Growth
(Seasonally Adjusted Annual Rates)

	1984 II-1986 II	1986 II-1986 IV	1986 IV-1987 II
Domestic Demand	3.8%	1.8%	2.2%
External Demand	-0.9	-0.3	1.3
Non-oil	-0.8	0.0	1.0
Oil Imports	-0.1	-0.3	0.3
Real GNP Growth	2.9%	1.5%	3.5%

The effect of trade improvement is not only evident in macroeconomic statistics but is also visible in the performances of individual industries. In general, industries that are export-oriented or face strong foreign competition have fared the best. Some of them have even run into capacity constraints. As the following chart shows, operating rates in the textile, paper, aerospace and chemical industries, all heavily trade-oriented, have surpassed their previous cyclical peaks and are approaching full capacity.



This growth pattern of trade improvement supplemented by moderate increases in domestic demand is expected to continue. It took a long time for dollar depreciation to turn the trade balance around. But now that U.S. industries have regained their international competitiveness, the improvement in trade should be long-lasting. This trade improvement, however, will not be able to carry

the economy forward by itself. It has to be supplemented by at least moderate growth in domestic demand.

Because most of the increases in domestic demand in the first half of this year came from inventory building, there has been a lot of concern about whether even moderate growth in domestic demand can be maintained in the second half of this year when inventory investment declines. It is our view that the reduction in inventory investment will be moderate, and the weakness in inventory investment will likely be more than offset by an acceleration in domestic final sales. The inventory to sales ratio has indeed risen from the extremely low end-1986 level, but it remains moderate by historical standards. In addition, the recent increases in manufacturers' inventories were concentrated in materials and supplies, while finished goods inventories were reduced. This indicates that the inventory increases were a reaction to the recent sharp rise in commodity prices rather than an involuntary buildup of unsold goods. The extremely weak domestic sales in the first half of this year largely reflected the slump in sales in the first quarter resulting from tax reform. Both consumer and business spending rebounded in the second quarter and, judging by the recent sharp increases in new factory orders, will likely continue to grow.

Victor Kung

Real GNP

(Percent Contribution to Real GNP Growth; Annual Rates)	Actual				Forecast				Actual	Forecast	
	1986		1987		1987		1988		1985-	1986-	1987-
	III	IV	I	II	III	IV	I	II	1986	1987	1988
Consumer Spending	4.7	0.3	-0.5	1.4	1.7	1.8	1.3	1.3	2.7	1.3	1.4
Business Investment	-0.4	0.6	-1.9	0.9	0.6	0.6	0.6	0.5	-0.3	-0.2	0.6
Residential Investment	0.5	0.1	-0.4	0.0	-0.1	-0.2	-0.1	0.2	0.6	0.0	0.0
Change in Inventories*	-3.1	-0.1	4.4	-1.5	-0.8	-0.1	0.1	0.2	0.0	0.3	-0.3
Net Exports	-1.6	1.1	1.8	0.8	0.8	1.0	0.8	0.7	-1.0	0.6	0.7
Government Purchases*	1.3	-0.5	1.0	1.0	0.9	0.7	0.5	0.5	0.9	0.7	0.8
Real GNP	1.4	1.5	4.4	2.6	3.1	3.8	3.2	3.4	2.9	2.7	3.2

Quarterly Economic Indicators

(Percent Changes at Annual Rates)	Actual				Forecast				Actual	Forecast	
	1986		1987		1987		1988		1985-	1986-	1987-
	III	IV	I	II	III	IV	I	II	1986	1987	1988
Nominal GNP	5.3	2.1	8.6	6.7	7.4	8.6	8.4	8.9	5.6	6.1	8.4
GNP Deflator	3.6	0.7	4.2	3.8	4.1	4.6	4.9	5.4	2.6	3.3	5.0
Corporate Profits After Tax#	0.4	-0.3	6.7	13.5F	8.7	7.4	13.2	6.7	-1.0	9.1	7.7

Monthly Economic Indicators

	Recent Data			Actual	Forecast	
	Apr.	May	Jun.	1986	1987	1988
Consumer Price Index** (%)	0.4	0.3	0.4	1.1	5.3	6.1
Industrial Production (%)	0.0	0.5	0.2	1.0	3.0	3.9
Retail Sales (%)	0.3	-0.3	0.4	5.5	3.6	4.2
Auto Sales (million units, a.r.)	10.5	9.8	10.1	11.5	10.1	10.0
Housing Starts (million units, a.r.)	1.64	1.60	1.59	1.81	1.66	1.61
Unemployment Rate (%)	6.3	6.3	6.1	7.0	6.3	5.7
Merchandise Trade Deficit ($ bn., a.r.)	-159.6	-172.8	n.a.	-166.3	-155.0	-135.0

*Adjusted for CCC purchases. **Annual percent changes are December to December.
#Quarterly data are year-over-year percent changes.
a.r.=annual rate F=Forecast

Economic Outlook

Irving Trust

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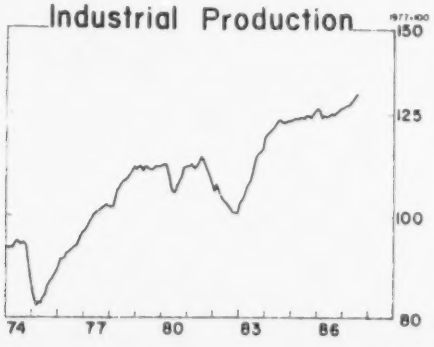
Economic Research &
Planning Division

September 1987

After having suffered a virtual recession between 1984 and 1986, the U.S. industrial sector has now regained its strength. This recovery can be clearly seen in the following chart. The industrial production index grew at an annual rate of 5.1% since last September, compared with a paltry annual increase of 1% in the previous two years. The 40% depreciation of the dollar since early 1985, which significantly boosted U.S. industries' competitiveness, was mainly responsible for the turnaround. Domestic markets recovered, and inroads were also made in foreign markets. The volume of manufactured goods exports has increased by 12% during the past year. Reflecting the increases in output, factory employment has also risen. In contrast to the massive layoffs and falling factory employment in 1985 and 1986, factory payrolls have increased by 131,000 since the beginning of this year.



Partly as a result of failing to appreciate the revival of the industrial sector, many analysts were surprised by the strength of the economy in the first half of this year. Most forecasts underestimated actual growth in both of the last two quarters. For the current quarter the consensus forecast for real GNP growth is around 2 1/2%. Recently released economic statistics, however, seem to suggest that the consensus forecast may once again undershoot the target. Consumer spending is strong, with retail sales in the July-August period 1.9% higher than in the second quarter. Business capital spending is also strong, as reflected in continued increases in capital goods orders and shipments. Industrial production in July and August was 1.7% higher than the second quarter average in spite of a sharp cutback in auto production. Total man-hours worked in the private nonagricultural sector increased at an annual rate of 3.3% in the July-August period, compared to an increase of 2.0% in the second quarter when real GNP grew by 2.5%. Based on such statistics, we forecast that real GNP growth will be 3% or better in the current quarter.

Inflation fears seem to have subsided somewhat in recent months. Consumer price inflation, after hovering around an annual rate of 5 1/2% earlier this year, has slowed to 4% for the time being. However, inflationary pressures are intensifying beneath the surface. Accelerating industrial production growth will continue to exert upward pressure on commodity prices. Perhaps

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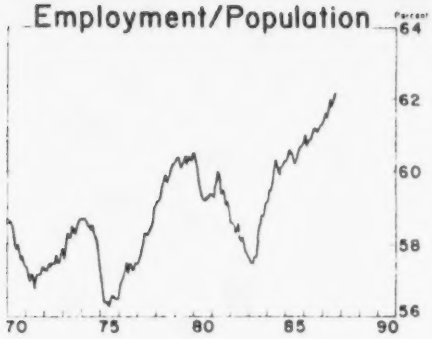

more important, the labor market has tightened significantly. As the above chart shows, the employment/population ratio, a measure considered to be an important gauge of labor market tightness, is now at an all-time high of 62%. The extremely low number of initial unemployment insurance claims, the long weekly work hours, and the high help-wanted advertising index all point to a further tightening of the labor market in coming months. Although wage increases have remained moderate up to now, an acceleration seems inevitable.

Victor Kung

Real GNP

(Percent Contribution to Real GNP Growth; Annual Rates)	Actual 1986 III	1986 IV	1987 I	1987 II	Forecast 1987 III	1987 IV	1988 I	1988 II	Actual 1985-1986	Forecast 1986-1987	Forecast 1987-1988
Consumer Spending	4.7	0.3	-0.5	1.2	3.0	0.4	1.3	1.3	2.7	1.3	1.4
Business Investment	-0.4	0.6	-1.9	1.3	0.6	0.6	0.6	0.6	-0.3	-0.1	0.6
Residential Investment	0.5	0.1	-0.4	-0.2	-0.1	-0.2	-0.1	-0.1	0.6	0.0	-0.1
Change in Inventories*	-3.1	-0.1	4.4	-1.6	-2.0	0.9	0.1	0.2	0.0	0.1	-0.3
Net Exports	-1.6	1.1	1.8	0.3	0.9	1.3	0.8	0.8	-1.0	0.5	0.8
Government Purchases*	1.3	-0.5	1.0	1.5	0.9	0.7	0.5	0.6	0.9	0.9	0.8
Real GNP	1.4	1.5	4.4	2.5	3.3	3.7	3.2	3.4	2.9	2.7	3.2

Quarterly Economic Indicators

(Percent Changes at Annual Rates)	Actual 1986 III	1986 IV	1987 I	1987 II	Forecast 1987 III	1987 IV	1988 I	1988 II	Actual 1985-1986	Forecast 1986-1987	Forecast 1987-1988
Nominal GNP	5.3	2.1	8.6	6.3	7.4	8.3	8.2	8.9	5.6	6.0	8.3
GNP Deflator	3.6	0.7	4.2	3.5	4.1	4.5	4.9	5.4	2.6	3.2	4.9
Corporate Profits After Tax#	0.4	-0.3	6.7	9.9	5.3	6.3	12.5	10.1	-1.0	7.3	9.5

Monthly Economic Indicators

	Recent Data Jun.	Jul.	Aug.	Actual 1986	Forecast 1987	Forecast 1988
Consumer Price Index** (%)	0.4	0.2	n.a.	1.1	5.0	6.1
Industrial Production (%)	0.7	0.8	0.3	1.0	3.6	4.3
Retail Sales (%)	1.2	0.5	1.3	5.5	3.9	4.2
Auto Sales (million units, a.r.)	10.0	10.5	12.4	11.5	10.3	10.0
Housing Starts (million units, a.r.)	1.59	1.61	1.58	1.81	1.65	1.61
Unemployment Rate (%)	6.1	6.0	6.0	7.0	6.2	5.6
Merchandise Trade Deficit ($ bn., a.r.)	-188.5	-197.7	n.a.	-156.2	-155.0	-135.0

*Adjusted for CCC purchases. **Annual percent changes are December to December.
#Quarterly data are year-over-year percent changes.
a.r.=annual rate F=Forecast

Economic Outlook

Irving Trust

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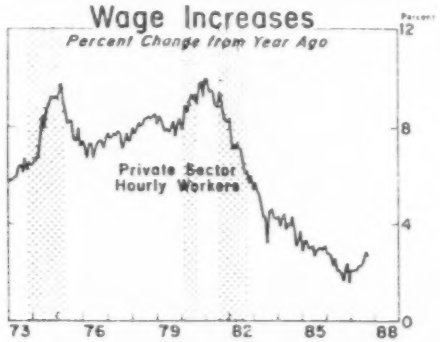
Economic Research &
Planning Division

October 1987

The strength in the economy continues to exceed most analysts' expectations. Manufacturing is leading the way, creating more than twice as many jobs in the third quarter as it added altogether in the three prior quarters. The lower dollar is stimulating this robust expansion with exports growing at double-digit rates. The overall increase in employment has buoyed consumer confidence to the highest levels in nearly 15 years, suggesting that forecasts of the consumer's demise are greatly exaggerated. While higher interest rates have dampened the outlook for housing and construction in general, the strong labor market and healthy corporate profits will continue to drive the economy ahead.

As economists have realized the underlying strength in the economy, concern has shifted toward the outlook for inflation. Until recently, most forecasters were taking solace from the sluggishness in wage growth. Weakened unions, deregulation, corporate restructuring, and earlier weakness in manufacturing have helped hold down wage growth in this expansion. But the current upward momentum in the labor market, where unemployment and initial claims for unemployment insurance are now running at the lowest levels since the 1970s, suggests the tide has turned on the wage inflation front. In fact, the year-over-year growth in wages bottomed out late last year with inflation, interest rates, economic growth, and manufacturing activity.



Some have minimized the pickup in wage inflation this year because it remains low in comparison with the 1970s. But the important point is that it is rising. While wage growth was less than three percent from September 1986 to September 1987, it picked up sharply in the third quarter, especially in the retail trade, mining, manufacturing, and finance sectors. As shown in the table, the retail trade sector exhibits the largest pickup in hourly earnings growth, reflecting the developing shortage of younger part-time workers. The third quarter acceleration in manufacturing wage growth reinforces the picture of accumulating strength in that sector. In addition, the recovery in manufacturing is spilling over into the mining sector, where a year of surging product prices has begun to contribute to increased labor demand and wages. The only sector showing a significant wage deceleration in the third quarter was construction, where higher interest rates and an oversupply of office buildings have slowed activity.

Hourly Earnings Index
(percentage change at annual rate)

	Sept 1986-June 1987	June 1987-Sept 1987
Retail Trade	1.1	5.6
Mining	0.0	4.2
Manufacturing	1.5	5.1
All Sectors	2.4	4.2
Finance, Insurance & Real Estate	4.5	5.5
Services	4.0	4.1
Wholesale Trade	2.9	3.0
Transport & Public Utilities	3.0	2.8
Construction	2.7	-1.5

There is no force on the immediate horizon sufficient to offset the underlying momentum in the economy. As a result, the trend in wages will continue upward. While still a far cry from the levels of the early eighties, inflation will continue to move up as wages begin to contribute to the pickup already ignited by the rapid growth of crude material prices.

Robert T. McGee

Real GNP

(Percent Contribution to Real GNP Growth; Annual Rates)	Actual 1986 III	Actual 1986 IV	Actual 1987 I	Actual 1987 II	Forecast 1987 III	Forecast 1987 IV	Forecast 1988 I	Forecast 1988 II	Actual 1985-1986	Forecast 1986-1987	Forecast 1987-1988
Consumer Spending	4.7	0.3	-0.5	1.2	3.2	0.5	1.3	1.3	2.7	1.3	1.4
Business Investment	-0.4	0.6	-1.9	1.3	1.0	0.6	0.6	0.5	-0.3	-0.1	0.7
Residential Investment	0.5	0.1	-0.4	-0.2	-0.1	-0.2	-0.1	-0.1	0.6	0.0	-0.1
Change in Inventories*	-3.1	-0.1	4.4	-1.6	-1.7	0.6	0.1	0.2	0.0	0.1	-0.3
Net Exports	-1.6	1.1	1.8	0.3	0.2	1.3	0.8	0.8	-1.0	0.5	0.7
Government Purchases*	1.3	-0.5	1.0	1.5	0.9	0.7	0.5	0.6	0.9	0.9	0.8
Real GNP	1.4	1.5	4.4	2.5	3.5	3.5	3.2	3.3	2.9	2.7	3.2

Quarterly Economic Indicators

(Percent Changes at Annual Rates)	Actual 1986 III	Actual 1986 IV	Actual 1987 I	Actual 1987 II	Forecast 1987 III	Forecast 1987 IV	Forecast 1988 I	Forecast 1988 II	Actual 1985-1986	Forecast 1986-1987	Forecast 1987-1988
Nominal GNP	5.3	2.1	8.6	6.3	7.5	8.1	8.4	8.9	5.6	6.0	8.3
GNP Deflator	3.6	0.7	4.2	3.5	3.9	4.5	4.9	5.4	2.6	3.2	4.9
Corporate Profits After Tax#	0.4	-0.3	6.7	9.9	6.3	6.3	12.5	10.1	-1.0	7.3	9.5

Monthly Economic Indicators

	Recent Data Jun.	Recent Data Jul.	Recent Data Aug.	Actual 1986	Forecast 1987	Forecast 1988
Consumer Price Index** (%)	0.4	0.2	0.5	1.1	5.2	6.1
Industrial Production (%)	0.7	0.8	0.3	1.0	3.6	4.3
Retail Sales (%)	1.2	0.5	1.3	5.5	3.8	4.1
Auto Sales (million units, a.r.)	10.0	10.5	12.4	11.5	10.3	10.0
Housing Starts (million units, a.r.)	1.59	1.61	1.58	1.81	1.65	1.58
Unemployment Rate (%)	6.1	6.0	6.0	7.0	6.2	5.6
Merchandise Trade Deficit ($ bn., a.r.)	-188.5	-197.7	-188.2	-156.2	-155.0	-135.0

*Adjusted for CCC purchases. **Annual percent changes are December to December.
#Quarterly data are year-over-year percent changes.
a.r.=annual rate F=Forecast